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BANKENO MINES LIMITED

annual report

1975

BANKENO MINES LIMITED

DIRECTORS A. H. T. CROSBIE
E. T. DONALDSON
R. M. GRAY
J. C. McBEAN
W. A. ROLIFF
H. F. ZURBRIGG

OFFICERS J. C. McBEAN, *President*
A. H. T. CROSBIE, *Vice-President*
R. M. GRAY, *Vice-President*
E. E. GORING, *Secretary*
F. D. BIGNELL, *Treasurer*

TRANSFER AGENTS CROWN TRUST COMPANY, Toronto, Ontario

AUDITORS CLARKSON, GORDON & Co., Toronto, Ontario

HEAD OFFICE Suite 908, 40 University Avenue
Toronto, Canada
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ANNUAL MEETING March 26, 1976
Toronto, Ontario

BANKENO MINES LIMITED

President's Report

TO THE SHAREHOLDERS:

Bankeno has three key investments, namely a 25% carried equity interest in Arvik Mines Limited, approximately a 2.03% equity interest in Panarctic Oils Ltd. and various working and carried interests in Arctic Islands oil and gas permits. Bankeno's 40% interest in the Edward gas project in Northeast Alberta was sold for cash subsequent to year end.

Cominco Limited is the 75% owner and operator of Arvik Mines Limited in which Bankeno owns a 25% carried equity interest. Assets of Arvik include the Polaris zinc/lead deposit and surrounding mineral claims and leases on Little Cornwallis Island in the high Arctic. The Polaris deposit has been outlined to contain 25 million tons of ore grading 14.1% zinc and 4.3% lead. Bankeno continues to be optimistic about prospects for early development of the Polaris ore body; however, discussions between Cominco and the Government regarding terms and conditions for developing the Polaris ore body continued throughout the year with only limited success. Work on the property during 1975 consisted largely of a limited amount of diamond drilling on western Little Cornwallis Island to fulfill tenure requirements and to complete limited exploration tests outside the Polaris ore body.

Bankeno also maintains a 25% working interest on favourably located zinc/lead prospects on Cornwallis Island to the South. No exploration activity was undertaken by Cominco Limited, the operator, on this ground over the past year.

Bankeno now holds a 2.03% equity interest in Panarctic Oils Ltd. Bankeno's equity interest in Panarctic has been diluted since September 30, 1974 due to a decision not to participate in the 6th and 7th round of equity financing for Panarctic just completed. Panarctic's principal assets consist of reserves of approximately 12 trillion cubic feet of natural gas on and offshore Ellef Ringnes, King Christian, Thor and Melville Islands, a significant oil discovery on Cameron Island and oil and gas rights covering over 80 million gross acres in the Canadian Arctic Islands.

A total of 109 wells have been drilled by Industry in the Arctic Islands prior to January 31, 1976. 89 of the 109 wells drilled are located on lands in which Panarctic has an interest and 8 of these are on lands in which Bankeno has retained a working interest. In December of 1975, a well drilled on Cameron Island encountered significant oil flows which over a 47 hour test indicated an average rate of 5,300 barrels per day with 17% water.

Panarctic's Hecla C-32 well recently extended the Hecla gas field eastward on the land portion, raising gas reserves in the Arctic Islands closer to the threshold reserves required to market gas by the Polar Gas Project. More recently, a westerly offshore well drilled from an ice platform over the Hecla gas field discovered a possible new gas zone below those now gas bearing in the Hecla field.

These recent discoveries continue to improve prospects for early discovery of sufficient reserves of both oil and gas to encourage commercial development. Three wells are currently drilling in the region. Of these, the most important is a 6-mile westerly step-out to the most recent Cameron Island oil discovery.

In addition to its equity interest in Panarctic, as of February 15, 1976, Bankeno has retained working or other interests ranging from 2.5% to 17.5% in approximately 4,722,428 million gross acres of oil and gas permits in the Canadian Arctic, of which approximately 80% have been farmed out to Panarctic. Bankeno's net interest in these permits is 383,258 acres, most of which are subject to a joint venture agreement with Cominco.

Subsequent to September 30, 1974, Bankeno surrendered its interest in 52 permits totalling 2,292,270 gross acres or 181,221 net acres.

Effective October 31, 1975, Bankeno sold its 40% working interest in the Edward gas project in North Central Alberta for a total cash consideration of \$400,000. \$280,000 was received on closing and \$120,000 with interest at 12% is due on October 31, 1976 provided the property produces at a stipulated minimum level. Proceeds of the sale were used to reduce indebtedness of the Company.

Current Management efforts are directed toward determining and implementing the means for Bankeno to satisfy its current and future obligations.

During the year, the Company was saddened by the death of Mr. F. G. Carrotte, who had been Vice-President Finance and a director of the Company since 1970. Also during the year, Mr. A. H. T. Crosbie, President and Chief Executive Officer of Upper Canada Resources Limited, was appointed a director of the Company.

On behalf of the Board of Directors,

JOHN C. McBEAN
President

February 18, 1976

BANKENO M

(Incorporated under)

Balance September

(with comparative figures)

ASSETS

	1975	1974
CURRENT:		
Marketable securities, at cost (quoted market value September 30, 1975 — \$4,100; September 30, 1974 — \$7,000)	\$ 8,489	\$ 10,489
INVESTMENTS, at cost:		
Panarctic Oils Ltd. (notes 2, 5)	2,776,456	2,776,456
Arvik Mines Ltd. (notes 3, 5)	25,487	25,487
	<u>2,801,943</u>	<u>2,801,943</u>
OIL AND GAS PERMITS, at cost (notes 4, 5)	<u>36,753</u>	<u>36,753</u>
MINING LEASES, at nominal value	<u>1</u>	<u>1</u>
DEFERRED EXPENDITURES, at cost (notes 1 (b), 5)		
Exploration and development	478,536	412,031
Administration expenditures	925,059	702,591
	<u>1,403,595</u>	<u>1,114,622</u>
	<u>\$4,250,781</u>	<u>\$3,963,808</u>

On behalf of the Board:

J. C. McBEAN, Director.

H. F. ZURBRIGG, Director.

AUDITORS' REPORT

To the Shareholders of
Bankeno Mines Limited:

We have examined the balance sheet of Bankeno Mines Limited as at September 30, 1975 and the statements of deferred exploration and development expenditures, deferred administration expenditures and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at September 30, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada,
January 22, 1976

Clarkson, Gordon & Co.
Chartered Accountants

INES LIMITED

(*the laws of Ontario*)

Sheet

30, 1975

September 30, 1974)

LIABILITIES

	1975	1974
CURRENT:		
Bank loan and overdraft (note 6)	\$ 785,958	\$ 532,096
Accounts payable and accrued liabilities	12,545	18,457
Due to associated companies	322,851	109,733
Payable to Panarctic Oils Ltd. (note 2)	223,487	397,582
	<hr/> 1,344,841	<hr/> 1,057,868
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized:		
6,000,000 shares of \$1 par value each		
Issued and fully paid:		
4,097,004 shares	4,097,004	4,097,004
Deduct discount less premiums	34,811	34,811
	<hr/> 4,062,193	<hr/> 4,062,193
Deficit (unchanged during period)	1,156,253	1,156,253
	<hr/> 2,905,940	<hr/> 2,905,940
	<hr/> <hr/> \$4,250,781	<hr/> <hr/> \$3,963,808

(see accompanying notes)

BANKENO MINES LIMITED

Statement of Deferred Exploration and Development Expenditures

Year Ended September 30, 1975

(with comparative figures for the nine months ended September 30, 1974)

	Year ended September 30, 1975	Nine months ended September 30, 1974
Drilling participation	\$ 86,071	\$ 30,708
Lease payments	2,141	12,806
Expenditures for the period	88,212	43,514
Deduct:		
Income from gas property	21,707	_____
NET EXPENDITURE FOR PERIOD	66,505	43,514
BALANCE, beginning of period	412,031	368,517
BALANCE, end of period	\$ 478,536	\$ 412,031

Statement of Deferred Administration Expenditures

Year Ended September 30, 1975

(with comparative figures for the nine months ended September 30, 1974)

	Year ended September 30, 1975	Nine months ended September 30, 1974
Administrative fees	\$ 96,000	\$ 72,000
Interest and bank charges	81,556	45,182
Legal and audit	7,080	6,080
Shareholders' reports	2,689	6,210
Transfer agent and listing fees	12,072	10,169
Travel	711	330
General	22,245	26,644
	222,353	166,615
Add (deduct):		
Loss on sale of securities	115	
Interest earned		(65)
NET EXPENDITURE FOR PERIOD	222,468	166,550
BALANCE, beginning of period	702,591	536,041
BALANCE, end of period	\$ 925,059	\$ 702,591

(see accompanying notes)

BANKENO MINES LIMITED

Statement of Changes in Financial Position

Year Ended September 30, 1975

(with comparative figures for the nine months ended September 30, 1974)

	Year ended September 30, 1975	Nine months ended September 30, 1974
APPLICATION OF FUNDS:		
Deferred exploration and development expenditures	\$ 66,505	\$ 43,514
Deferred administration expenditures	222,468	166,550
Additional investment in Panarctic Oils Ltd.		459,780
	<u>288,973</u>	<u>669,844</u>
SOURCE OF FUNDS:		
Issue of shares		475,000
DECREASE IN WORKING CAPITAL	<u>288,973</u>	<u>194,844</u>
WORKING CAPITAL DEFICIENCY , beginning of period	1,047,379	852,535
WORKING CAPITAL DEFICIENCY , end of period	<u>\$1,336,352</u>	<u>\$1,047,379</u>

(see accompanying notes)

BANKENO MINES LIMITED

Notes to the Financial Statements September 30, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES —

(a) Investments

Investments are carried in the Company's accounts at cost.

(b) Deferred Expenditures

Exploration and development and administration expenditures are deferred until such time as the Company's properties are brought into production or abandoned.

2. INVESTMENT IN PANARCTIC OILS LTD. —

	September 30 1975	1974
829,000 common shares	<u>\$2,737,623</u>	<u>\$2,737,623</u>
23 common shares of Panarctic Oils Operators Ltd.	<u>3</u>	<u>3</u>
	<u>2,737,626</u>	<u>2,737,626</u>
Bankeno Mines Limited share of Panarctic Oils Ltd. capital expenditure program	6,330	6,330
Value assigned to capital stock of Bankeno Mines Limited issue to Upper Canada Resources Limited as consideration for guarantee of payments on initial investment in Panarctic Oils Ltd.	<u>32,500</u>	<u>32,500</u>
	<u><u>\$2,776,456</u></u>	<u><u>\$2,776,456</u></u>

Panarctic Oils Ltd. was formed to explore the oil and gas potential in the Arctic Islands. It is financed jointly by private enterprise and the Government of Canada.

During 1974 Bankeno elected to participate in the fifth Panarctic financing and committed to contribute a total of \$453,450, all of which had been called as at September 30, 1975. The Company is in arrears in payment of these calls. The remaining unpaid balance of \$223,487 has been accrued as a liability in the accounts.

The Company elected not to participate in the sixth or seventh Panarctic financing, resulting in a reduction in the Company's percentage interest in Panarctic Oils Ltd.

3. INVESTMENT IN ARVIK MINES LTD. —

	September 30 1975	1974
750,000 common shares	<u>\$ 25,487</u>	<u>\$ 25,487</u>

(a) Little Cornwallis Island Properties —

By agreement dated October 1, 1971 the Company and Cominco Ltd. incorporated a new company, Arvik Mines Ltd., to acquire claims and leases on Little Cornwallis Island and two groups of claims on Cornwallis Island which Cominco had been exploring under the terms of a 1965 agreement between the companies. Bankeno received 25% of the common share capital of Arvik. Cominco has undertaken to incur all expenditures it deems necessary on the above-mentioned claims and Bankeno is not required or entitled to contribute thereto. Under the terms of the agreement Cominco is to assume responsibility for arranging the required financing and will receive 6% cumulative redeemable preferred shares for its expenditures. Cominco's expenditures on the Arvik Mines Ltd. properties to December 31, 1974 amounted to approximately \$6,700,000. Bankeno will similarly receive 6% cumulative redeemable preferred shares for its expenditures, aggregating \$75,000 incurred prior to June 4, 1964.

Distribution of profits to the Arvik shareholders after repayment of production financing shall be as follows:

(i) 80% towards payment of dividends (including arrears) on the preferred shares and the

balance in pro rata redemption, at par, of the preferred shares; and
(ii) 20% towards payment of dividends on common shares.

(b) Cornwallis Island Properties —

Under the terms of the above agreement, Cominco has a 75% interest in other Cornwallis Island properties and Bankeno has a 25% interest. As of December 31, 1975, Cominco had incurred expenditures of \$133,000 on these properties and is liable to spend up to \$200,000. If Bankeno is to retain its present percentage interest of 25% it must contribute its proportionate share of expenditures on the next \$200,000 spent on these properties, otherwise its interest is diminished accordingly. When \$400,000 is spent on these properties, a new company shall be formed to acquire these Cornwallis Island properties for 750,000 common shares to be allocated pro rata. Additional shares may be issued for expenditures in excess of \$400,000 in the ratio of one share for each \$1 of expenditures with Bankeno retaining the right to participate in proportion to its interest.

4. OIL AND GAS PERMITS —

In addition to its shareholdings in Panarctic, the Company has working and other interests in oil and gas exploratory permits in the Canadian Arctic Islands.

5. VALUE OF INVESTMENTS IN ARCTIC ISLANDS —

The amounts shown for investments, oil and gas permits and related deferred costs represent accumulated costs and are not intended to reflect current or future values.

6. BANK LOAN AND OVERDRAFT —

The Company's bank loan totals \$750,000, bears interest at 2% above the Bank's prime rate, and is secured by 564,700 shares of Panarctic Oils Ltd. owned by the Company.

7. INCOME TAXES —

Under the provisions of the Income Tax Act, exploration and development expenditures are deductible in arriving at taxable income; any expenditures not deducted in one year may be carried forward to be applied against future income. The Company has approximately \$4,291,000 of expenditures so available, most of which is reflected on the accompanying Balance Sheet as investments and deferred expenditures. In addition, the Company has a loss carry-forward, for income tax purposes, of \$104,000 at September 30, 1975.

8. OTHER STATUTORY INFORMATION —

The aggregate remuneration of directors and senior officers (as defined under The Business Corporations Act, Ontario) was \$5,000 in 1975 (\$5,200 in 1974).

9. YEAR-END CHANGE —

Effective September 30, 1974, the Company changed its fiscal year-end from December 31 to September 30.

10. SUBSEQUENT EVENT —

Subsequent to September 30, 1975, Bankeno sold its interest in gas properties in Alberta for \$400,000. Cash of \$280,000 was received on closing and \$120,000, with interest at 12%, is due on October 31, 1976, provided the properties continue to produce at a stipulated minimum level.

11. ANTI-INFLATION PROGRAM —

Effective October 14, 1975, the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. As a result the Company is subject to restrictions on the payment of dividends.

